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Riley's

DATASHARE
INTERNATIONAL LTD.



*annual
report
may
1977*

BOARD OF DIRECTORS:

(As of October 4, 1977)

JERRY F. D'ARCY	President, Can-Tex Drilling & Exploration Ltd.
ARVIL D. MINOR	Chairman of the Board and President Riley's DataShare International Ltd.
ROBERT SADLER	Vice President and Secretary-Treasurer Riley's DataShare International Ltd.
TERRY SPARKS	President, Riley's Reproductions & Printing Ltd.
W. TOM SHORT	Executive Vice President Riley's DataShare International Ltd.
H. NORMAN STEWART	President HNS Consultants Ltd.

OFFICERS:

ARVIL D. MINOR	Chairman of the Board and President
W. TOM SHORT	Executive Vice President
ROBERT SADLER	Vice President and Secretary-Treasurer
NICHOLAS J. SAKIRES	Vice President Well Log Divisions
WM. THANE MINOR	Vice President International Marketing
BRIAN CAMPBELL	Vice President Science & Technology
MELVIN C.J. WOLSTONCROFT	Assistant Treasurer
ARNOLD J. HARTLAND	Assistant Secretary

TO THE SHAREHOLDERS:

We are pleased to announce another all-time high in total earnings of \$582,700 (44.7¢ per share) for our Company's twenty-seventh year ended May 31, 1977.

Sales showed a moderate increase to \$2,558,200 compared with \$2,452,000 a year ago. Earnings from operations decreased to \$3,000 (0.2¢ per share) from \$113,600 (8.7¢ per share) a year ago. The reasons for this decrease are described under Digital Division in this report. Extraordinary earnings were \$579,700 consisting of the gain on the sale of the Company's Calgary property on 8th Avenue S.W. and the amount of income taxes that would have been paid but for the application of prior years losses carried forward.

In March 1977 the company paid its eighteenth dividend.

With the sale of the 8th Avenue property, the Company has sold all of its real estate according to plan. The final price resulted in approximately five percent more than the highest of other offers to purchase.

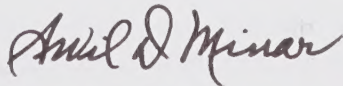
The opening of a "twin" computer data processing facility took place as planned in Houston, Texas. This move required vision, courage and dollars. The unanimity of our Board of Directors and executive management team in this regard was essential and is most pleasing. The timeliness of this move is proving to be excellent as shown elsewhere in this report.

The strongest cash position in our history is being eroded by inflation. Subsequent to our year end our Directors approved the use of a substantial amount of our cash in expanding production capabilities in our Digital Division, to meet the growing market demands.

The executive management team has been upgraded most significantly in both quality and number. The soundness of these moves is being reflected already in improved standards throughout the entire company.

Once again we express our appreciation to all our employees whose skills, attitudes and diligent efforts are without peer. The continuing co-operation and confidence shown by our customers is also the best in our twenty-seven year history.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "Arvil D. Minor". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Arvil D. Minor
President

DIGITAL DIVISION

A second DECSYSTEM-20 time share computer system along with all peripheral items essential to establish a "twin" RDSI system in Houston became operational in January 1977.

Over the past fourteen years our computer and software system for digitizing well logs has been painstakingly developed based on continuous interaction with the oil industry. This was necessary to create a flexible system capable of responding to the needs of our customers. That we have and are succeeding is being proven repetitively as our users tell us:

ours is the one system that works on their own computers the first time, every time!

ours is a system which has many hidden strengths directly linked to many of the exploration and development needs. Some users are finding these strengths sufficient to cause redigitization in the RDSI format;

ours is a system that fits the user's dynamic needs rather than our own needs;

ours is a system which deals exclusively with data, which is both precise and accurate.

We were able to become operational in Houston using a capital and expense outlay lower than estimated. Before the end of our fiscal year it became evident that RDSI, all our competitors and all the digitizing capability in the oil industry would be unable to meet the current demand for digitized well logs. Our directors immediately granted approval to move as rapidly and as intelligently as possible toward around-the-clock operations. By the end of the first quarter of our current fiscal year, Calgary digital branch was on 24 hours per day, five days per week and Houston was on 2 shifts (16 hours) per day, five days per week. Our plan calls for 3 shifts around the clock by the fourth quarter of this fiscal year.

The attempt to expand Houston and Calgary so rapidly resulted in buying some new equipment, hiring and training new personnel in very thin labour markets and moving highly skilled trainers to Houston on temporary assignments. In addition, we were required to add to our executive management team because of this rapid expansion.

Expansion of these activities has also resulted in a significant increase in operating expenses in the last two quarters of the year ending May 31, 1977, and an operating loss in the first quarter of the current fiscal year. We are forecasting this trend will continue through the first three quarters of our fiscal year ending May 31, 1978.

Once again our Board and management team are showing vision, courage and a willingness to invest in the future, and we predict these investments will result in profitable returns for our digital division beginning toward the end of our current fiscal year, and continuing for many years.

EXPLORATION DATA EXCHANGE

Prior to the year end we elected to discontinue this operation. We are currently in the process of selling the data management and storage business, and the geophysical data base associated with the seismic brokerage business.

HALF-SCALE LOG LIBRARY — PETRO WELL LIBRARIES

INCENTIVIZATION by both Federal and Provincial governments since 1975-76 has resulted in increased drilling activities and these divisions are returning to normal growth patterns in sales. Operating expenses continue to increase at a rate substantially greater than the published inflation rate. Increasing demands for a complete Canadian log library on microfiche cards continue; we plan to have such a library with RDSI quality and service controls available in the near future. This will add a fourth dimension to the "complete" Canadian oilwell log library available in 1/2 scale, microfilm cassettes, microfiche cards and digital!

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Riley's DataShare International Ltd. as at May 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Leat, Marwick, Mitchell & Co.

Calgary, Canada
September 21, 1977

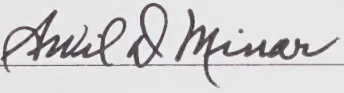
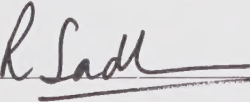
Chartered Accountants

RILEY'S DATASHARE INTERNATIONAL LTD.
CONSOLIDATED BALANCE SHEET
 May 31, 1977
 (with comparative figures for 1976)

ASSETS

	<u>1977</u>	<u>1976</u>
Current assets:		
Cash, including deposit receipts	\$1,673,700	787,500
Accounts receivable:		
Trade	431,000	341,900
Other	42,100	83,900
Inventory of materials — at lower of cost and net realizable value	67,400	106,300
Current portion of notes receivable	28,000	16,800
Prepaid expenses and deposits	53,500	49,800
	<u>2,295,700</u>	<u>1,386,200</u>
Long-term notes receivable	626,100	643,100
Less current portion above	28,000	16,800
	<u>598,100</u>	<u>626,300</u>
Property, plant and equipment — at cost	1,340,900	1,657,900
Less accumulated depreciation	673,600	788,700
	<u>667,300</u>	<u>869,200</u>
Research and development expenses — net (Note 2)	834,900	840,100
Less digital log research contributions (Note 3)	834,900	840,100
	<u>—</u>	<u>—</u>
Other assets:		
Goodwill — at cost less amounts amortized	656,100	615,900
Investments and other — at cost less amounts written off	51,300	39,900
Deferred Charges (Note 4)	350,700	94,200
	<u>1,058,100</u>	<u>750,000</u>
	<u><u>\$4,619,200</u></u>	<u><u>3,631,700</u></u>

LIABILITIES

	<u>1977</u>	<u>1976</u>
Current liabilities:		
Bank loan	\$ 104,900	—
Accounts payable and accrued liabilities	611,600	442,800
Current portion of long-term debt	137,200	100,000
	<u>853,700</u>	<u>542,800</u>
Long-term debt (Note 5)	346,900	185,000
Less current portion above	137,200	100,000
	<u>209,700</u>	<u>85,000</u>
Deferred income taxes	<u>71,500</u>	<u>30,600</u>
Shareholders' equity:		
Share capital (Note 6):		
Authorized 2,400,000 shares without nominal or par value		
Issued 1,303,242 shares	2,559,800	2,559,800
Contributed surplus	348,800	348,800
Retained earnings	575,700	64,700
	<u>3,484,300</u>	<u>2,973,300</u>
Commitments and contingent liability (Note 7).		
Approved on behalf of the Board:		
<u></u> , Director		
<u></u> , Director		
	<u>\$4,619,200</u>	<u>3,631,700</u>

See accompanying notes.

RILEY'S DATASHARE INTERNATIONAL LTD.

Consolidated Statement of Earnings and Retained Earnings

Year ended May 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Sales	\$2,558,200	2,452,000
Interest and other income	135,400	148,500
Rental income	<u>100,700</u>	<u>90,600</u>
	<u>2,794,300</u>	<u>2,691,100</u>
Cost of goods sold and operating expenses exclusive of items shown below	2,630,900	2,336,200
Depreciation	88,200	83,400
Amortization of research and development expenses	5,200	2,100
Interest:		
Long-term debt	14,400	25,300
Other	<u>11,700</u>	<u>10,400</u>
	<u>2,750,400</u>	<u>2,457,400</u>
Earnings before the following	43,900	233,700
Income taxes — deferred (a subsidiary)	<u>40,900</u>	<u>120,100</u>
Earnings before extraordinary items	<u>3,000</u>	<u>113,600</u>
Extraordinary items:		
Gain on disposal of fixed assets, less applicable income taxes of \$136,200 (Note 8)	443,500	—
Recovery of income taxes arising on application of prior years' deductions for income tax purposes	<u>136,200</u>	<u>89,500</u>
	<u>579,700</u>	<u>89,500</u>
Net earnings	582,700	203,100
Retained earnings (deficit), beginning of year	64,700	(66,700)
Dividend paid	<u>(71,700)</u>	<u>(71,700)</u>
Retained earnings, end of year	<u>\$ 575,700</u>	<u>64,700</u>
Earnings per share:		
Net earnings before extraordinary items	0.2¢	8.7¢
Extraordinary items	<u>44.5¢</u>	<u>6.9¢</u>
	<u>44.7¢</u>	<u>15.6¢</u>

See accompanying notes.

RILEY'S DATASHARE INTERNATIONAL LTD.

Consolidated Statement of Changes in Financial Position

Year ended May 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Source of funds:		
Operations:		
Net earnings before extraordinary items	\$ 3,000	113,600
Add charges to earnings not requiring funds including depreciation	129,400	127,900
Deferred income taxes	40,900	120,100
	<u>173,300</u>	<u>361,600</u>
Funds provided from operations	173,300	361,600
Proceeds on disposal of fixed assets (Note 8)	836,500	710,400
Proceeds on disposal of investment	—	8,600
Proceeds on issuance of long-term loan	261,900	—
Reduction of long-term notes receivable	28,200	—
	<u>1,299,900</u>	<u>1,080,600</u>
Total funds provided	1,299,900	1,080,600
Application of funds:		
Purchase of fixed assets	159,300	119,400
Reduction in long-term debt and digital log research contributions	142,400	102,100
Increase in other assets — net	267,900	95,300
Goodwill	60,000	59,300
Dividend paid	71,700	71,700
Purchase of notes receivable net of current portion	—	626,300
	<u>701,300</u>	<u>1,074,100</u>
Total funds applied	701,300	1,074,100
Increase in working capital	598,600	6,500
Working capital, beginning of year	843,400	836,900
Working capital, end of year	<u>\$1,442,000</u>	<u>843,400</u>

See accompanying notes.

RILEY'S DATASHARE INTERNATIONAL LTD.

Notes to Consolidated Financial Statements

May 31, 1977

1. Accounting policies:

(a) Principles of consolidation:

- (i) The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly-owned.
- (ii) The excess of the purchase price of the shares of subsidiaries over their underlying net book values at dates of acquisition has, on consolidation, been included in "Goodwill" in the accompanying consolidated balance sheet and is being amortized over a forty year period.

(b) Depreciation and amortization:

Depreciation on plant and equipment is provided on a declining balance method at rates which are estimated to amortize the costs of such assets over their productive lives as follows:

Machinery and equipment	20%
Furniture and fixtures	20%
Automotive	30%
Leasehold improvements	term of lease

(c) Income taxes:

The companies follow the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

(d) Translation of foreign currencies:

The accounts of the Company's operations located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt — at rates current at the year end; plant and equipment — at rates current on dates of acquisition; accumulated depreciation and related provisions against earnings — on basis of dollar value of related plant and equipment; and revenue and expenses — at average rates for the year. Exchange gains or losses arising on the translation of current assets and current liabilities are included in earnings as incurred; gains or losses on long-term debt are deferred and amortized on a straight line basis over the remaining life of the indebtedness. There were no significant translation losses or gains during the year.

(e) Comparative figures:

Certain 1976 figures have been reclassified for comparative purposes.

2. Research and development expenses:

Research and development expenses represent the amount expended on the digital oilwell log program to May 31, 1970 net of accumulated amortization and writedown. Research and development expenses are carried in the accompanying balance sheet at an amount equal to the Company's Digital Log Research Contributions as discussed in Note 3.

3. Digital Log Research Contributions:

Research contributions consist of the following:

Government of Canada	\$347,000
Other participants	<u>487,900</u>
	<u>\$834,900</u>

RILEY'S DATASHARE INTERNATIONAL LTD.
Notes to Consolidated Financial Statements — Continued
May 31, 1977

The Government of Canada has advanced to the Company, under the Program for Advancement of Industrial Technology, certain funds which are repayable only if the results of the research project are put to commercial use. The repayment agreement provides for repayment of the contributions together with interest at 5¼%, at a rate based on 4% of certain sales resulting from the project. Pursuant to the agreement, interest of \$248,000, the repayment of which is contingent on sales, has accrued to May 31, 1977 and has not been reflected in the accompanying accounts.

Contributions totalling \$342,900 made by other participants are repayable in the form of discounts on digitized log purchases until such time as the oilwell log digital division attains a reasonable profit and cash flow (which has not yet occurred) as stated in the agreements with the participants; at such time the participants shall have the right to recover balances then owing to them on the basis of one-fifth of the balance per year over a five year period, less discounts allowed on purchases during each year. Contributions totalling \$145,000 are repayable on a discount basis only.

4. Deferred charges:

The costs of new product development and preproduction are deferred. New product development costs are being amortized over a three year period on a straight line basis. Preproduction costs will be amortized over a three year period on a straight line basis commencing June 1, 1977. Unamortized costs related to products or projects abandoned are charged to expense at that time.

5. Long-term debt:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
8% Chattel mortgage due June 1, 1977	\$55,000	55,000	—
Note payable with interest at 1% above bank prime rate, due June 1, 1977	30,000	30,000	—
Bank loan with interest at 1½% above bank prime rate, due August 31, 1979	<u>261,900</u>	<u>52,200</u>	<u>209,700</u>
	<u>\$346,900</u>	<u>137,200</u>	<u>209,700</u>

The bank loan is repayable in United States currency in quarterly instalments of \$12,500 plus accrued interest.

RILEY'S DATASHARE INTERNATIONAL LTD.
Notes to Consolidated Financial Statements — Continued
May 31, 1977

6. Share capital:

The Company has reserved 50,000 treasury shares for an employee stock option plan. During the year options for 7,500 shares were cancelled as a result of expiry or termination of employment and options for 12,000 shares were issued.

As at May 31, 1977 there were options outstanding pursuant to the plan in connection with 26,500 shares, details of which are as follows:

<u>Number of shares</u>	<u>Price per share</u>	<u>Exercisable to</u>
500 (Employees)	\$1.5675	January 19, 1978
<u>26,000 (Officers)</u>	\$0.8075 to \$1.90	October 20, 1981
<u>26,500</u>		

7. Commitments and contingent liability:

The Company and its subsidiaries have, in the ordinary course of business, entered into various property and equipment leases with rentals of approximately \$403,300 per year.

Pursuant to an agreement whereby the Company acquired all of the business and certain assets of another company, the Company was required to pay additional amounts in the event that the cumulative net earnings of the acquired business during the five years ended May 31, 1977 were greater than a stipulated amount. In this regard the sum of \$244,600 has been paid or is payable for the five year period ending May 31, 1977 and has been included in the accompanying financial statements under the caption "Goodwill".

8. Amounts paid to directors and senior officers:

Aggregate direct remuneration paid or payable in 1977 by the Company and its subsidiaries to the Company's directors and senior officers amounted to \$2,400 and \$360,600 respectively (1976 \$1,400 and \$220,600). Of this remuneration \$113,400 has been charged against extraordinary income in 1977.

9. Anti-Inflation Act and Regulations:

The Company is subject to, and believes it has complied with controls on dividends under the Federal Government's Anti-Inflation Program.

CORPORATE INFORMATION

EXECUTIVE OFFICE	409, 8th AVENUE S.W. Calgary, Alberta T2P 1E3
BRANCHES	Calgary — 522-528, 9th Avenue S.W. Houston — 2525 Murworth
PRINCIPAL SUBSIDIARY	W.J. Dick & Co. Ltd.
REGISTRAR AND TRANSFER AGENT	National Trust Company
STOCK EXCHANGE LISTING	Toronto Stock Exchange
AUDITORS	Peat, Marwick, Mitchell & Co. Calgary, Alberta
LEGAL COUNSEL	Jones, Black & Company — Calgary Fulbright & Jaworski — Houston
BANKERS	Royal Bank of Canada — Calgary Canadian Imperial Bank of Commerce — Calgary Texas Commerce Bank — Houston

